

Första AP-fonden's Ownership Policy

Effective from 1 January 2021

Introduction

Första AP-fonden is a long-term investor and an engaged owner. This means amongst other things that the Fund has high ambitions for Corporate Governance, as well as for sustainable value creation.

Första AP-fonden is a responsible owner and the Fund's actions with regard to ownership issues are based on a business-oriented approach and knowledge about the individual company. The Fund always steered by what is best for the companies and their shareowners over time, and therefore also for those insured in the pension system. In its actions, the Fund shall also seek to benefit the company in question and promote an efficiently functioning capital market. By being business-oriented and transparent, taking a long-term approach and with high integrity in its action, the Fund builds trust in companies, other owners and stakeholders, and among the public.

The Fund presumes that the businesses it invests in adhere to international conventions, the Global Compact and the national legislation of the countries where they operate. It is the responsibility of the board to ensure that there are adequate processes and controls to secure this.

Corporate law, traditions and codes of relevance for corporate governance that apply in the market where the company is based are also important and can also affect the Fund's position in individual cases. In addition to laws, traditions, corporate law and codes, the Fund's position is based on eight principles for corporate governance and the companies' social and environmental responsibility. Each principle is divided into two parts, of which the first contains general principles that apply to all companies where the Fund has holdings, regardless of their nationality, and the second applies only to Swedish companies. Första AP-fonden has formulated special rules for Swedish companies because the Fund generally has larger holdings in these companies, and therefore also greater opportunity to influence them. The Ownership Policy applies to shares that are managed both in-house and by external managers and to both listed and unlisted shares, although the Fund has significantly smaller scope to influence unlisted companies that are owned indirectly. However, it is vital that the requirements for listed companies do not become so onerous that companies avoid listing on a marketplace.

For companies in which Första AP-fonden has significant voting power (associated companies¹), special owner directives should be adopted. The companies should be good role models in Corporate Governance issues. Aside from the eight principles below, remuneration to senior executives in the company should comply with “The Swedish Government’s guidelines for remuneration to senior executives in government enterprises” (2009-04-09). Any deviations from these guidelines must be documented and published. In associated companies, Första AP-fonden should have its own representation on the company’s board of directors.

In the first instance, the fund initiates a dialogue with the companies that are not perceived to meet the fund's expectations. Första AP-fonden seeks to cooperate with other shareowners – both Swedish and foreign – where appropriate and in accordance with the Fund’s Ownership Policy. The failure of other shareowners to act does not constitute reason for the Fund to refrain from taking measures of its own.

Active external communication conveys a clear profile that strengthens the Fund’s credibility. The Fund’s views on individual companies are primarily discussed directly with the company’s board and management group. If the fund does not succeed in the dialogue, the fund can present the views publicly. In such cases, the Fund may also vote against proposals submitted by the Board or the Nomination Committee at the general meeting. The fund can also sell the holding.

Eight principles for Corporate Governance

1. Voting rights and right of proposal at general meetings

The general meeting of shareowners is the company’s highest decision-making body, and the exercise of voting rights at general meetings is an important tool for shareowners to exert their ownership influence. Första AP-fonden works to ensure that this right is unrestricted. This also means that the shareowners must be able to propose items for the agenda of general meetings, and be entitled to have these matters discussed.

2. Equal treatment

Första AP-fonden’s position is that shares granting equal financial rights in a company should always be treated equally in a financial respect. Deviations from this principle are permitted only as specifically stated in a company’s articles of association. It is important that the interests of minority shareowners are protected.

For Swedish listed companies: In the Swedish market it is common for companies to have classes of shares with differentiated voting rights (class A and B shares) but with equal financial rights to the company’s assets and profits. In order to maintain confidence in this

1 In most cases, a voting share of more than 10 percent. According to the Swedish National Pension Funds Act, this is permitted only for real estate companies and private equity companies.

system, it is essential that the equal treatment principle is upheld. For Första AP-fonden it is important that no shareowner is discriminated against financially in connection with (i) payment of dividends – regardless of whether payment is made in cash, shares in subsidiaries or some other manner, (ii) liquidation of a company, or (iii) bids for all shares in a company.

3. Capital structure

Companies should seek a capital structure that is appropriate with regard to the company's operative risks and future opportunities to generate returns for its shareowners. Capital that the company cannot invest with a higher long term return than the capital cost for the company should be distributed to the shareowners. The Fund's position is that the shareowners should have opportunities to vote at general meetings regarding new share issues, dividends and buy-backs of the company's own shares. Directed buy-backs should not be carried out at prices exceeding the current market price at any given time.

As a rule, new share issues should be resolved on by the general meeting of shareowners and should be carried out as cash issues with pre-emptive rights for the company's existing shareowners. In some cases it is justifiable to deviate from the pre-emptive rights of existing shareowners (preferential issues). The discount in preferential issues should be market-based. Authorization for the board to carry out issues may be suitable but should not exceed 10% of the company's share capital and should not extend longer than until the next annual general meeting. In the event of non-cash issues, a thorough and detailed evaluation should be published to enable the shareowners to assess the terms of the issue in relation to the acquired assets.

All deviations from the normal case, a pre-emptive rights issue resolved on by the general meeting, must be motivated in detail by the company's board of directors. Första AP-fonden will then make a restrictive assessment of the board's motives.

It is not in the best interests of the shareowners for a company to set up any type of obstacle to acquisition of the company. Första AP-fonden is against the implementation of such obstacles and is in favour of eliminating them.

For Swedish listed companies: The law should not prohibit a transparent and clear system of voting rights differentiation. The Swedish system of class A and class B shares is transparent and clear and have served well. Respect for ownership rights demands that any changes in voting rights be carried out voluntarily. In certain cases, however, the disadvantages of having different share classes outweigh the advantages. In such cases, Första AP-fonden will take action to promote a change in the differentiation of voting rights.

As the preferred alternative, Första AP-fonden advocates the use of general methods such as pre-emptive rights issues, extra dividends, redemption or buy-back of own shares programmes to adjust the capital structure. Since the voting rights have no value for the company, share buy-backs should be undertaken only for the least expensive share class at any given time, if the company has more than one class of shares. It may be cost-effective to use a share buy-back as part of a hedge of the company's share-based incentive schemes. Shares that are repurchased for other reasons should be cancelled and the sale of such shares should not be permitted. Proposals for a buy-back of the company's own shares must be well motivated.

4. The companies' boards of directors

Election of board members

The right to nominate and vote for board members at a general meeting is of fundamental importance for the shareowners. Första AP-fonden's position is that nomination of the chairman and board members should take place through a clear and open nomination procedure. Första AP-fonden also works to prevent restriction of shareowner influence on election of board members and should increase.

When Första AP-fonden finds that the board, or any director, has mismanaged the assignment to work for the company's best interests, the fund will vote against to the re-election of all or some of the directors.

For Swedish listed companies: Första AP-fonden actively participates in the nomination of board members and, as a rule, takes part in the nomination committees of the companies where this is warranted by the size of the Fund's shareholding. Otherwise, the Fund cooperates with the sitting nomination committee in cases where the Fund feels that a change in the composition of the board would benefit the company and its shareowners.

The nomination committee has an extensive need for information from the board of directors – primarily, but not solely, via the chairperson – about the board's performance and competency requirements.

Första AP-fonden's position is that the chairperson should not be a member of the nomination committee. He or she should instead be co-opted to the nomination committee. The nomination committee should receive information from other board members by meeting them individually. The nomination committee should appoint a secretary among themselves or use an external independent secretary.

Composition of the board

Expertise and integrity are important attributes for a board member. Effective board performance requires diversity in the composition of the board to achieve the necessary breadth in the members' combined experience and knowledge. Första AP-fonden therefore strives to widen the recruitment base for board candidates and thereby achieve a more even gender distribution and an increased share of ethnic minorities.

Första AP-fonden's position is that a company's board chairperson and managing director should not be one and the same person. Each board of directors should include members who have an independent status in relation to the company's management and major shareowners. The board's remuneration, nomination and audit committees should be independent of the company. Första AP-fonden is in favour of electing the board for one year at a time.

For Swedish listed companies: The boards of directors should be made up of members with the requisite competence and experience, high integrity, good availability and strong commitment. The board members should devote the amount of time and attention needed to carry out their work in a satisfactory manner, always with the interests of all shareowners in view.

The composition of the board should be continuously adapted to the respective company's business operations, external conditions, market and phase of development. The board of

directors should consist of members with diverse competencies, backgrounds and perspectives. Första AP-fonden strives for an even distribution between men and women on the boards. The boards should also have a balanced mix of individuals with different backgrounds and perspectives. There should be enough Directors in the Board that are independent of large owners in order to make the Board able to take decisions in the case of a take-over bid for the company. The company's managing director should not be a member of the board. If the Nomination Committee proposes that the company's CEO should be elected to the board of a company where the CEO is currently not a director, this should be explained.

The Board's assignment

The board is appointed by the owners and must with integrity, business acumen and prudence decide on the company's strategy, appoint a CEO, monitor how the strategy is implemented, the risk level in the company in general and primarily via financial reporting report back to the owners on how the company's work is progressing. The purpose of this assignment is to create long-term value for the owners.

This means that in most cases the company cannot be content with following laws and regulations to its letter, but should act more responsibly in order to increase the long-term value of the company. It is the Board's responsibility to ensure that the company's operations are conducted in a financially, environmentally and socially responsible manner and that the company is transparent in its communication.

In cases where Första AP-fonden finds that the company does not act in a way that benefits the company and its owners, this will be discussed to the board. Första AP-fonden may vote against re-election of all or some of the directors if the company continues to act in an irresponsible manner. The fund may also sell its holdings.

Remuneration to board members

Remuneration to the chairperson and other members of the board should be market-based and should reflect the demands placed upon them. Första AP-fonden is in favour of board members owning shares in the company, but does not feel that this need be a mandatory requirement.

For Swedish listed companies: Första AP-fonden's position is that directors' fees should be determined in a fixed amount. However, this does not prevent payment of part of the fee in the form of actual or synthetic shares. Första AP-fonden considers that the allotment of warrants should only in exceptional cases be allotted to board members as part of their fee. The time to maturity of the warrants should be long. Första AP-fonden also advocates systems that are designed so that the shares are not freely transferable until after an extended period of time (lock-up period).

The fact that third parties, for example one of the owners of the listed company, issue non-standardized warrants or options to board directors is in most cases inappropriate because it introduces conflicts of interest and loyalty. This is especially true in cases where the procedure is subsidized. Even if the options are transferred at an estimated market value, the procedure can lead to a decrease in confidence in the company.

The companies should be restrictive in providing remuneration in addition to the board fees to Directors for services that are outside the board assignment, for example consultancy assignments. If this still is considered necessary, the reporting should be transparent. It is appropriate for the AGM to decide in advance on a maximum amount for such services.

5. Remuneration to senior executives and incentive schemes

Första AP-fonden's position is that management remuneration should be structured in such a way that it benefits the company and its shareowners. Such remuneration encourages the employee to act in a way that increases the company's long-term profits at the same time that a suitable level of risk is maintained in operations. The remuneration system may not serve as an incentive for illegal or otherwise inappropriate actions. Första AP-fonden promotes remuneration that is reasonable, market-based and consistent with best practice in the local market, and should be moderate enough that it can be clearly and openly motivated to the company's stakeholders. The remuneration system should not undermine the confidence of the company's stakeholders. Information about the structure of compensatory programmes should be detailed and accurate, regardless of whether these are resolved on by the general meeting or not.

For Swedish listed companies: Första AP-fonden works to ensure that the remuneration to senior executives in Swedish listed companies is reasonable, market-based and in line with "best practice" in the Swedish market.

Responsibility for determining the level of remuneration to the managing director lies with the company's entire board, regardless of whether this has been resolved on by the general meeting or not. The remuneration system and process for determining the amount of remuneration to the managing director and senior executives should be characterized by openness and should not undermine the confidence of the companies' stakeholders. In the event that remuneration to senior executives leads to share ownership, the company should promote ownership of the shares for an extended period of time, in most cases even for some time after employment has ended.

Fixed remuneration

A certain proportion of the fixed remuneration may be paid in the form of shares in the executive's own company. The principles for remuneration to senior executives should contain information about how this proportion is determined.

Variable cash remuneration

Any variable cash portion of remuneration should be performance-related, evaluable and in most cases linked to the company's profitability. Första AP-fonden's position is that a large proportion of the performance targets should be set in relation to the company's competitors. It is important that the variable remuneration does not serve as an incentive for short-term actions or undesirable risk taking.

Första AP-fonden is of the view that it is, in many cases, an advantage if short-term variable remuneration is small in relation to long-term variable remuneration.

Long-term share-based incentive schemes

Aside from fixed and variable remuneration, there are long-term share-related incentive schemes where the goal is to ensure that the interests of senior executives are aligned with those of the shareowners. Such schemes also provide the opportunity to offer a market-based total remuneration comparable to that offered in many other countries.

Whether a long-term incentive scheme is market-based or not must be judged in relation to the other parts of the remuneration package. It is important to analyse thoroughly the scheme and gain the support of the shareowners before a decision is made at the general meeting. The incentive scheme should be part of a communicated long-term remuneration strategy.

Schemes with own investment

A market-based payment in order to participate in an incentive scheme is equated with a performance requirement. Första AP-fonden therefore approves incentive schemes that require a market-based price for participation. Första AP-fonden considers it favourable if employees own shares in the company. To encourage this, the company may, under certain conditions and at reasonable costs, give the participants a small subsidy.

Schemes without own market-based investment

In order for a long-term share-based incentive scheme to have the intended effect, Första AP-fonden's position is that the following criteria must be met:

- The achievement of pre-determined, clear and measurable targets shall be required in order to qualify for allocation in share-related incentive schemes. As a rule, the performance targets should be linked to the company's long-term value creation. Incentive schemes should not reward the participants for the event of a general stock market rally. If the programmes are related to the company's share price performance, they should preferably be relative, i.e. the company's share price performance is related to development across the entire stock market, share price performance in the industry or share price performance for selected competitors. The targets should be set in a way that does not encourage unwanted risk-taking or other undesirable behaviour.
- The criteria for the performance targets shall be communicated to the shareowners prior to a decision by the general meeting, although it is acceptable to provide information about the level of goal attainment required for a particular award when the term of the scheme has ended.
- Long-term share-related incentive schemes expose the company to a risk for movements in the price of its own shares. Information about how the company intends to manage this risk, and the related costs, shall be put before the general meeting prior to a decision.
- There should be an upper limit in the value of the scheme, particularly if it is not relative.
- The costs for and effects of previously implemented schemes should be regularly evaluated as a basis for decisions on future schemes. The evaluation should be carried out from a shareowner perspective and should be presented to the shareowners before a

decision is made on new or continued incentive schemes. The board is responsible for performing the evaluation and for ensuring that the shareowners are provided with clear and straightforward information about the results. If a satisfactory evaluation is not presented prior to the proposal of an incentive scheme, Första AP-fonden will vote against the scheme.

Pensions

Pension provisions for senior executives are part of the total remuneration package and must therefore be judged in relation to other types of remuneration. Pension benefits and the companies' current and anticipated future pension expenses must be reported in detail. Första AP-fonden's position is that the pension plans of senior executives should be of the defined contribution type. However, existing contracts should be renegotiated only when motivated from a cost perspective.

6. Audit and internal control

It is in the interests of the shareowners that a company's external audit and internal control are of adequate quality. Very strict requirements should be made regarding the independence of external auditors from the company and its management.

For Swedish listed companies: Auditors are appointed by the company's shareowners and have the role of independent examiners. Första AP-fonden stresses the importance of having competent auditors with sufficient resources to conduct an audit of high quality. The auditors should provide as detailed information as possible to the shareowners, both in the audit report and at the general meeting.

The effectiveness of a company's internal control is of the utmost importance in building confidence in the company and the stock market in general. Första AP-fonden places high demands on the completeness and accuracy of a company's description of internal control in the corporate governance report.

7. Environmental and social issues

This principle applies to both Swedish and foreign companies.

The companies operations should be conducted in a financially, environmentally and socially responsible manner. Första AP-fonden's view is that the companies themselves are responsible for compliance with international conventions, regardless of whether these are directed to national governments, to individuals, or to companies and organizations. Moreover, this responsibility applies regardless of whether the countries in which these companies operate have signed the conventions or have weaker legislation. Första AP-fonden expects all of the companies it invests in to live up to the ten principles for corporate responsibility that are defined in the UN's Global Compact, and to include sustainability issues in formulating the company's business strategy. Första AP-fonden also expects companies to follow internationally agreed guidelines and principles. An example of such principles that the companies are expected to follow is UN Guiding Principles for Business and Human Rights (UNGP).

International conventions

As part of the Swedish pension system, Första AP-fonden bases its principles on the core values applied by the Swedish government, where democracy and sustainable development are central components in accordance with the rights and freedoms defined in the Instrument of Government.

Första AP-fonden principles for sustainability are based on the international conventions that have been signed by Sweden, including conventions relating to the environment, human rights, labour rights, corruption and particularly inhumane weapons. In cases where Sweden declares its support for a new convention or modification of an existing convention that has not yet been formally ratified, the Fund will act as if such ratification has already taken place. Första AP-fonden will regularly monitor how the ratification process for the new or modified convention is progressing. In the event that Sweden has not ratified the convention within a period of three years from the date on which Sweden has declared its support for the same, Första AP-fonden may review the basis for its guidelines regarding the issues covered by the new or modified convention.

Första AP-fonden's position is that all of the conventions that have been ratified by Sweden are of equal importance and should therefore be adhered to. This position is also supported by the UN Declaration of Human Rights, which points out that human rights are universal, indivisible, interdependent and interrelated, and cannot be ranked internally.

By tying Första AP-fonden's requirements to international conventions and by cooperating with others towards the same purpose, the Fund can contribute to international efforts to ensure that action is taken against infringement of conventions in the global financial market. This also serves to give the conventions greater weight.

Första AP-fonden's work on sustainability and Corporate Governance aims to create and protect values for current and future Swedish pensioners. Första AP-fonden makes a difference by proactively striving for sustainable development, acting and imposing demands on transparency and positive changes. This enhances Första AP-fonden's ability to fulfil its mission.

Första AP-fonden's assessment and measures

Första AP-fonden's assessment of the companies shall be based on an official examination in each individual case. The Fund's assessment shall consider the seriousness of the offence and how it has been judged by the relevant authority. In this respect, deliberate or repeated infringements will be judged more severely. Any action that the company has taken or intends to take with immediate effect in order to correct the problem will be taken into account. Första AP-fonden works to ensure that the companies have viable policies, explicit goals, resources and action plans for improvement measures, as well as open reporting of their environmental and social responsibility efforts.

If a company in which Första AP-fonden has invested can be associated with infringement of any of the conventions that Sweden has ratified or recently declared its support for, the Fund will attempt to influence the company to bring about a change in order to avoid future infringements. Where possible, the companies should also provide compensation for damages to the affected individuals and correct any negative impact on the environment.

If it becomes obvious that the company has no interest in making changes or if the implementation of changes does not take place with the desired speed, Första AP-fonden will take actions against the company. A first step is to vote against the re-election of all or some of the directors. The fund can also exclude the company from its investment universe. A decision of this type means that all of the Fund's holdings of securities issued by the company – regardless of whether they are managed internally or externally – shall be divested as soon as feasibly possible. If the Fund terminates its ownership, the problems in question will not disappear and the unacceptable conditions will continue. For that reason, exclusion of the company from the Fund's investment sphere is a last resort, to be taken only when the opportunities to make a difference are without hope of success.

8. Information disclosure

Companies should seek an open and continuous dialogue with the shareowners. The companies' information should be accurate, clear, objective and trustworthy. The information provided by the companies should enable qualified assessment of the company's future development and the factors that create value for the shareowners. The companies should strive for clarity with regard to their established goals and the financial and strategic consequences of these goals.

The companies should publish an ethics policy or code of conduct and an anti-corruption policy. The companies should also be transparent in matters related to tax, for example by publishing a tax policy. Climate reporting should also be made in a transparent and relevant way. In addition, the companies should transparently describe how the policies and guidelines are implemented, monitored and evaluated.

Decision-making procedure

This Ownership Policy applies from 1 of January 2021 and replaces the earlier policy. The Board of Directors of the Fund decides on the Första AP-fonden's Ownership Policy. Första AP-fonden's Managing Director addresses ownership-related issues directly or according to his delegation to another executive. In ownership issues of greater importance, the Chairperson of the Board should be consulted and the matter should then be reported to the Board. The Chairperson should refer ownership issues of particular importance to the board. Furthermore, ownership issues that are found to be of a significant nature at the time of reporting should be subject to treatment by the Board. At least once a year, the Managing Director shall report to the board on compliance with the Ownership Policy.

Any conflicts of interest in Corporate Governance are handled in accordance with Första AP-fonden's "Policy for handling conflicts of interest" (only in Swedish).